

# FDIC State Profile

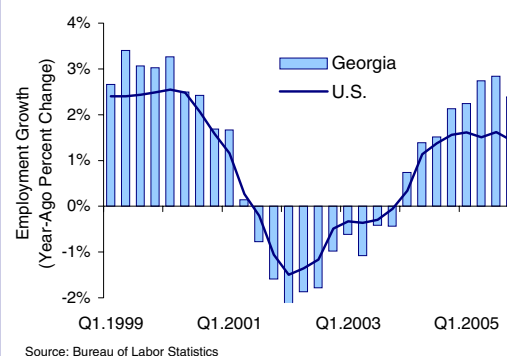
Spring 2006

## Georgia

### Job growth in Georgia continues to improve.

- Recently revised employment data indicate Georgia's economic performance moderated marginally at the end of 2005. Even so, job growth in the fourth quarter, at 2.4 percent, continued to surpass the nation by a substantial margin (see Chart 1).
- By sector, employment gains were mixed. Although healthcare posted significant growth, comparatively low wage industries, such as temporary jobs and leisure and hospitality, tended to see the largest increases.
- In contrast, manufacturing and information services continued to shed employees. In mid-March 2005, however, Kia Motors announced its intention to open a plant in Troup County on the Alabama border, which could eventually help offset the loss in other manufacturing jobs. Employment in the transportation sector remains vulnerable in 2006 due to the continued financial challenges faced by Delta Airlines.

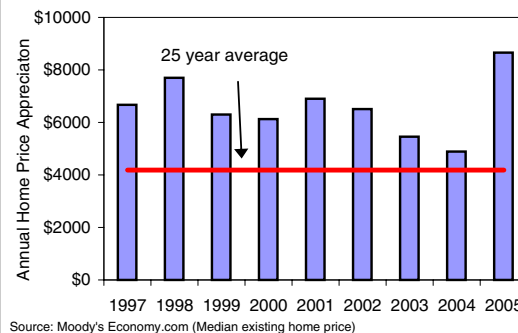
Chart 1: Georgia Job Growth Moderated in Late 2005



### Home price appreciation accelerated in 2005.

- According to the Office of Federal Housing Enterprise Oversight, the house price index for the state rose 6.4 percent in 2005. Median home prices rose by nearly \$8,700 last year, which was a record increase and well above the \$4,191 average over the last 25 years (see Chart 2).. Home prices in **Hinesville** appreciated most rapidly with an increase of \$13,500.
- Although home price appreciation accelerated in 2005, housing remains comparatively affordable. According to the National Association of Homebuilders-Wells Fargo Housing opportunity index, just 41 percent of homes nationwide are considered affordable for all U.S. households; nearly 76 percent of homes sold in **Atlanta**, for example, would be considered affordable for a family earning the median income in the metropolitan area.

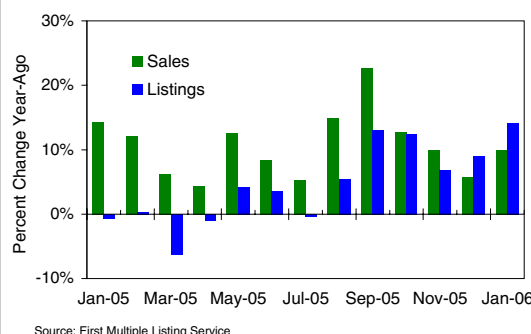
Chart 2: Annual Home Price Appreciation in Georgia Was at a Record Level in 2005



### The pace of home sales is decelerating.

- In Atlanta, as well as statewide, growth in home sales continued to moderate through the end of 2005, while increases in the inventory of unsold homes edged upward

Chart 3: Inventory Growth in Atlanta Has Eclipsed Increases in Homes Sales



(see Chart 3). In January 2006 there was a 2.2 month supply of homes listed for sale. This was relatively unchanged from the prior year, even though the unsold inventory of listed homes increased by 14 percent. The slowing pace of home sales and growing inventory levels suggest that marketing times may lengthen, potentially leading to slower price gains in 2006.

### Bank profitability expands due to strong loan growth.

- Profitability at Georgia community banks improved during 2005.<sup>1</sup> Return on assets gained nearly 15 basis points to 1.34 percent during the 12-month period (see Chart 4). Significantly higher net interest income was primarily due to strong loan growth. Overall, loans increased more than 14 percent led by double-digit growth in construction and development (C&D), other commercial real estate, and home equity loans. Lower loan loss provisioning also contributed to the profitability improvement.

### The changing yield curve shape has affected net interest margins (NIMs).

- Community bank NIMs have shown clear reactions to changes in the level and shape of the yield curve (see Chart 5). During 2001 and 2002, NIMs initially expanded as rate cuts led to lower funding costs, but margins then fell as borrowers refinanced high volumes of residential mortgages and other loans. By early 2003 margins stabilized and then started trending upward. While funding costs have been slower to rise because of repricing lags, they have recently begun to accelerate, suggesting that NIM pressures will begin to emerge in 2006.

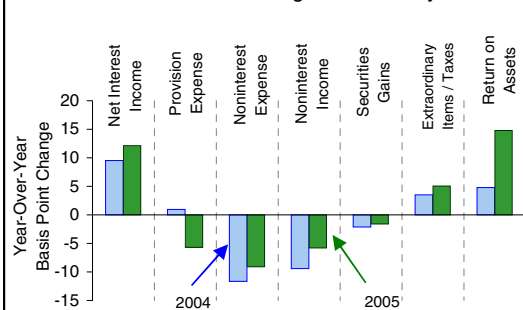
### Commercial real estate (CRE) lending concentrations are at unprecedented levels.

- CRE lending has been an important performance driver during the past ten years. Outstanding CRE loans have grown from \$7.5 billion, or 39.7 percent of assets, in 1996 to \$34.5 billion, or 61 percent of assets, in 2005.
- Within the CRE loan portfolio, C&D has been the fastest growing segment. C&D loans grew 39 percent during 2005, which was the thirteenth consecutive year that double-digit growth has occurred. The majority of C&D lending is for residential housing and continued strong absorption of new housing units will be a crucial factor.
- C&D loan to capital ratios have increased significantly and are well above the past cyclical high reached in the late 1980s (see Chart 6). Specifically, 166 community banks (61 percent) in Georgia had an exposure of C&D loans of 100 percent or more of capital. In sharp contrast, only 39 community banks (12 percent) had a C&D loan

to equity ratio of 100 percent or higher in 1988 at the past cyclical high.

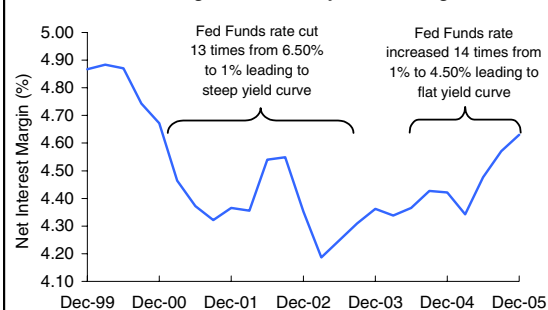
- In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The comment period for the proposed guidance has been extended to April 13, 2006.

Chart 4: Profitability Gains Have Started to Moderate, But Remain Positive at Georgia Community Banks



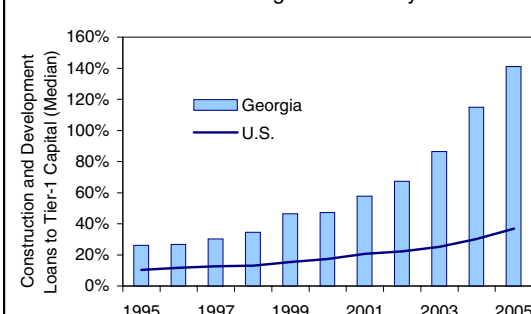
Source: FDIC, year-end data. Community banks have assets of \$1 billion or less.

Chart 5: The Dynamic Interest Rate Environment Is Reflected in Georgia Community Bank Margins



Source: FDIC, quarterly data. Community banks have assets less than \$1 billion.

Chart 6: Construction and Development Loans Continue to Grow at Georgia Community Banks



Source: FDIC (Community banks have assets less than \$1 billion).

<sup>1</sup>Community banks have assets of \$1 billion or less.

## Georgia at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.4%	2.8%	2.1%	1.4%	-0.6%
Manufacturing (11%)	-0.7%	0.2%	0.9%	-0.8%	-3.1%
Other (non-manufacturing) Goods-Producing (6%)	4.6%	4.9%	2.3%	2.3%	-0.4%
Private Service-Producing (67%)	2.7%	3.3%	2.5%	2.0%	-0.6%
Government (16%)	2.3%	2.1%	1.3%	0.7%	1.2%
Unemployment Rate (% of labor force)	5.3	5.4	5.1	4.8	4.8

<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	6.6%	7.7%	5.9%	2.3%
Single-Family Home Permits	14.3%	6.0%	-4.6%	8.7%	5.7%
Multifamily Building Permits	-66.2%	-20.1%	101.6%	30.6%	-28.0%
Existing Home Sales	7.2%	14.4%	24.3%	24.0%	0.1%
Home Price Index	6.4%	6.5%	5.7%	4.8%	3.9%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	9.22	9.40	8.38	8.60	9.17

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	349	347	344	344	345
Total Assets (in millions)	274,467	267,019	224,691	224,691	214,101
New Institutions (# < 3 years)	40	36	38	38	34
Subchapter S Institutions	64	63	58	58	55

<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.34	1.44	1.47	1.47	1.72
ALLL/Total Loans (median %)	1.29	1.30	1.32	1.32	1.34
ALLL/Noncurrent Loans (median multiple)	2.50	2.45	2.22	2.22	2.07
Net Loan Losses / Total Loans (median %)	0.09	0.05	0.12	0.12	0.19

<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.31	9.32	9.12	9.12	9.17
Return on Assets (median %)	1.19	1.27	1.11	1.08	1.03
Pretax Return on Assets (median %)	1.63	1.75	1.47	1.49	1.39
Net Interest Margin (median %)	4.53	4.51	4.29	4.28	4.23
Yield on Earning Assets (median %)	7.16	6.92	6.12	5.95	6.14
Cost of Funding Earning Assets (median %)	2.57	2.36	1.79	1.68	1.91
Provisions to Avg. Assets (median %)	0.23	0.22	0.24	0.25	0.25
Noninterest Income to Avg. Assets (median %)	0.71	0.74	0.76	0.75	0.80
Overhead to Avg. Assets (median %)	3.02	2.97	3.10	3.03	3.07

<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	73.2	73.6	72.9	72.9	71.8
Noncore Funding to Assets (median %)	26.6	26.9	23.9	23.9	21.7
Long-term Assets to Assets (median %, call filers)	6.2	6.4	8.4	8.4	9.8
Brokered Deposits (number of institutions)	197	192	154	154	116
Brokered Deposits to Assets (median % for those above)	7.0	7.2	6.9	6.9	5.7

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	79.4	78.9	85.1	85.1	84.6
Commercial Real Estate	385.2	392.9	354.0	354.0	321.4
<i>Construction &amp; Development</i>	135.0	134.1	107.8	107.8	80.3
<i>Multifamily Residential Real Estate</i>	5.7	5.4	5.4	5.4	4.2
<i>Nonresidential Real Estate</i>	197.0	197.7	200.2	200.2	197.3
Residential Real Estate	156.8	161.5	166.4	166.4	171.3
Consumer	39.0	40.7	48.0	48.0	55.8
Agriculture	10.0	10.5	11.1	11.1	11.2

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Atlanta-Sandy Springs-Marietta, GA	138	94,461	< \$250 million	249 (71.3%)
Chattanooga, TN-GA	26	6,612	\$250 million to \$1 billion	87 (24.9%)
Augusta-Richmond County, GA-SC	16	5,486	\$1 billion to \$10 billion	12 (3.4%)
Savannah, GA	21	4,620	> \$10 billion	1 (0.3%)
Columbus, GA-AL	13	4,541		